



# EdFed

Federal Lender Code 834241

America's Top Student Loan Consolidator

175, South Lake Ave, Suite 200, Pasadena, California 91101

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[www.Edfed.com](http://www.Edfed.com)

## Is Consolidation Worth It?

**Depending on a borrower's situation, student debt consolidation's long- and short-term effects can be beneficial.**

*By Brooke Chappell*

Life is good. After years of hard work and taking out loans, you've graduated, and you have a great job. The money is coming in, you're building a good credit history, and you have had no problems making your student loan payments. You're on the way to having everything you've been working for, both professionally and financially. So why should you bother with consolidating your student loans? Because you still need to protect your financial future.

The federal student loan consolidation program is intended to help borrowers better manage their loans, regardless of income. Let's face it. Grad school of any kind, least of all dental school, is not cheap. Many dental students will have taken out \$100,000 or more in loans by the time they graduate, and the interest doesn't make things any easier.

But you're making payments. You're on top of things. You may even be able to pay the loans off early with your great, new salary. Why should you worry?

Well, why should you keep paying thousands of dollars more on your debts; instead of taking a few minutes and saving a fortune? Your loans were taken out for a specific purpose: to get you through dental school. You've gotten what you need out of them. Paying debts is necessary, but it doesn't add anything to your life. With the money you could save every month with consolidation, you could lease and insure an luxury car or to buy a home.

Federal loan consolidation provides many benefits to help you with your debt.

Borrowers who consolidate enjoy a fixed interest rate. Many borrowers do not realize that their federal Stafford loans have a variable interest rate until they consolidate. The interest rate for student loans is adjusted each year on July 1. On Dec. 21, 2005, Congress passed legislation that will cut \$12.7 billion in funding out of the federal student loan program. This means that graduates will face higher interest rates and fewer options after July 1, 2006. Consolidating your loans now ensures you will receive a low, fixed interest rate for the life of your loan. Your loan will not be affected by yearly interest rate increases.

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The fixed interest rate for a consolidation loan is based on the weighted average of the interest rates of the loans being consolidated, rounded up to the nearest one-eighth of a percentage point, not to exceed 8.25%. For borrowers still in school or in their grace period, the consolidation interest rate would be 4.75%. This is a very good rate, especially when you consider that consolidations were being done at the maximum rate of 8.25% only a few years ago. With interest rates on the rise, it is important to lock in a low fixed interest rate by consolidating now.

Suppose you've got a good interest rate at the moment. What can consolidation do to help you? The federal government, in an effort to make up the crushing national deficit, has recently announced that the interest rates on federal student loans will be rising dramatically in the very near future. Although you may have a low interest rate now, the interest rate on your loans will soon be rising significantly.

Monthly student loan payments are expected to increase by about 30% because the Treasury bill rate, which the government uses to reset annual student interest rates, is predicted to rise an additional 1.7 percent. After the hikes in interest rates, financial experts predict that graduates will have to pay an additional \$1,000 in interest charges for every \$10,000 that is borrowed. That is a large chunk of your paycheck that you'll be forced to hand over, with nothing received in exchange.

Consolidating also helps to lower your monthly payments. The lower your fixed interest rate is, the lower your payments will be. Also, consolidating federal student loans generally extends the loan term, thereby reducing your monthly payments even further. Unconsolidated student loans typically have a loan term of 10 years. When you consolidate, this term is often extended to as long as 30 years, based on your total amount of student debt.

You are not having any trouble with your payments now, but who knows what the future will bring? Lowering your monthly payments helps to protect you in case your financial situation changes. Having that extra money at your disposal opens up options for you in your career and your day-to-day life. If you don't like the idea of extending your loan term, keep in mind that there is no prepayment penalty on federal consolidations. You can always pay more than your scheduled payment and pay off your loan early without risk of being assessed a fee.

Another great benefit of federal consolidation loans is that they remain guaranteed by the government. Therefore, they are very attractive for private lenders making these loans. Because of this, lenders often offer responsible borrowers further reductions in interest rates to attract their business. These payment incentives, coupled with a fixed interest rate for the life of the loan, make federal consolidation loans very affordable compared to other types of consumer credit. You

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can generally borrow tens of thousands of dollars while still maintaining a manageable monthly payment. Also, if you run into a period of financial difficulty, federal consolidation loans generally qualify for periods of deferment or forbearance until your financial situation improves.

You should be proud of yourself for achieving your professional goals. Your future is bright. Consolidate your federal student loans now to begin saving and enjoying the money you are making.